

Dear Shareholders,

It is a great pleasure to see that so many of you have come here today. I will talk about last year but also tell you a little bit about what we are doing this year.

In 2010 we invested in offering our customers even more fashion and quality for the money, as well as in providing an even more inspiring shopping experience. Our designers created collections that were very well received and with our strengthened customer offering we further improved H&M's market position. We reported good growth and high profitability for the year.

### **2010 in figures**

Sales increased by 15 percent in local currencies. Sales in comparable units were strong with an increase of 5 percent. During the year, currency translation effects were negative as the Swedish krona strengthened sharply against the currencies in most of our sales countries. The negative effect was substantial, both on sales and on profits. Translated into SEK, sales grew by 7 percent to approximately 108 billion excluding VAT.

The gross margin increased by 1.3 percentage units to 62.9 percent. The gross margin is impacted by numerous factors, including several external factors that affect our purchasing costs.

Like the sector in general, we benefitted from favourable external factors at the beginning of 2010, such as an increase in suppliers' surplus capacity, lower raw material prices and lower transportation costs. All of these factors had a positive impact on purchasing costs until the end of the third quarter of 2010.

External factors subsequently turned against us, becoming significantly negative in time for our purchasing for the fourth quarter. The price of cotton, for example, doubled during the year. That is a dramatic increase in the price of the single most important raw material used for H&M's garments. The effect on our purchasing costs was substantial.

The negative effect of external factors was even greater at the beginning of 2011. I will come back to that.

### **An even stronger customer offering**

I would like to emphasise that the gross margin is not, and never has been, a target in itself for us. We do not manage our business based on achieving a certain gross margin nor on a quarterly basis. We manage our business by what is best for H&M in the long term. What is important to us is to be able to continue to grow while maintaining quality, sustainability and high profitability.

Our focus is always on the customers. We aim to exceed their expectations at all times. In 2010, we increased our investments in H&M's business concept, which is to offer fashion and quality at the best price. This enabled us to offer customers even more value for money. The improvements spanned our entire offering – from added design details and better quality in some garments to more attractive prices for others.

In addition, we stepped up initiatives aimed at strengthening the brand in the long term and securing future expansion. This involved investing in marketing and IT development as well as online sales, an area where we see great potential for future growth.

The activities were also reflected in higher costs, particularly towards the end of the year. At the same time as we made these investments, we increased operating profit by SEK 3 billion. Our operating margin increased from 21.3 to 22.7 percent.

Net profit increased by 14 percent to SEK 18.7 billion, or SEK 11.29 per share adjusted for the 2:1 share split in June 2010.

## **Expansion 2010**

In 2010, we welcomed customers in many exciting store openings around the world.

South Korea, Turkey and Israel became new H&M markets, the latter via franchise.

Standing here a year ago, after my visits to Seoul and Tel Aviv, I shared with you my impressions of the fantastic atmosphere at those openings. It was equally exciting to see how customers in Turkey were waiting with great anticipation for H&M to open. We opened our first store there in October. Turkey is an interesting market and one we already know well through our production office and our longstanding relationships with a number of local suppliers. We see great growth potential for H&M in Turkey.

Last year, we expanded and met all parts of our growth target: to increase the number of stores by 10 to 15 percent per year, increase sales in comparable units and at the same time grow while maintaining quality, sustainability and high profitability. We opened a net total of 218 stores.

Long-term quality is at the heart of every decision about where to open stores and we never compromise on the best commercial locations.

H&M had 2,206 stores in 38 markets at the end of the financial year, including franchise stores and our other brands.

Our online and catalogue offering is an important complement to our stores. We have offered online and catalogue shopping in Sweden, Norway, Denmark, Finland, the Netherlands, Germany and Austria for many years, and sales continued to develop well in 2010. In the autumn, we launched H&M Shop Online in yet another important market, the UK.

### **Sales per market 2010**

H&M's fashion is available in four continents and sales developed well in almost all of our markets last year.

In North America sales growth was very good, both in the USA and in Canada. In Europe, sales developed well in our large markets, Germany, the UK, the Netherlands, Sweden and France. Asia also performed well, particularly China, which is one of the countries where we opened the most stores in 2010. Growth in Japan and South Korea was also good. In Russia, which became a new H&M market in 2009, there was a strong increase in sales.

The economy recovered in many of our markets last year. The economic situation in general, however, remained uncertain. In markets such as Ireland, Greece and Spain development was weak, which was also reflected in our sales figures, although the situation improved towards the end of the year.

### **First quarter 2011**

Moving on to 2011: In the first quarter, which is from 1 December to 28 February, our sales grew by 9 percent in local currencies. Sales in comparable units increased by 1 percent, in a quarter characterised by restrained consumption, a discount driven market and considerable price activity. The weather had an adverse effect as well. In December stores in many markets had to close periodically due to a heavy snowfall.

Like in 2010, currency translation effects were also negative in the first quarter 2011. Sales in Swedish kronor decreased by 1 percent to 24.5 billion excluding VAT. That is a difference of 10 percentage units to the 9 percent sales increase in local currencies.

Gross profit decreased to SEK 14.2 billion, corresponding to a gross margin of 57.8 percent compared to 61.9 percent a year earlier. In the first quarter of last year all of the external factors were working to our advantage, as I mentioned before. Effects from our former currency hedging policy also contributed in a positive way.

For the first quarter of 2011, on the other hand, the external factors turned against us resulting in sharp increases in purchasing costs. We chose not to pass this cost inflation on to our customers. Instead we decided to strengthen our price position in order to build further on H&M's market position in the long term. This strategy contributed to the decrease in our gross margin.

Our operating margin was 13.9 percent, compared to 20 percent. Our net profit decreased by 30 percent to just over SEK 2.6 billion.

In March after the end of the first quarter, sales including VAT increased by 2 percent in local currencies. In comparable units, sales decreased by 5 percent.

This development should be viewed in light of very strong comparative figures. Sales rose by 21 percent in March 2010, benefitting from, among other things, an early Easter.

In March, as you all know, Japan was hit by disaster, an earthquake with a terrible aftermath. Our thoughts are with all of the people in Japan and with Japan as a nation. All through this difficult time, our highest priority has been the safety of our employees and our customers. We therefore closed all of our nine stores in the Tokyo area for up to two weeks. All of the stores were reopened following independent safety inspections. We also opened a new store at the end of the month. H&M's store in Osaka remained open the entire time. Our Tokyo office moved to Osaka temporarily in order to manage our daily operations in Japan.

In order to help support the people who are suffering, H&M is donating clothes to the Red Cross in Japan and to People's Hope Japan.

### **Profit trend 2005 – 2010**

Since the start in 1947, H&M has performed strongly. Over the past five financial years alone, sales including VAT have grown by 77 percent at the same time as profit has increased by 102 percent.

Our solid growth, high profitability and strong financial position are also reflected in an increase over the years in H&M's dividend. The proposed dividend for 2010 is SEK 9.50 per share, an increase of approximately 19 percent from 2009. The proposed dividend is equivalent to 84 percent of the net profit for the year.

### **Our collections**

Behind H&M's success lies the ability of our amazing employees, among them are our talented designers who create a broad and varied range of fashions. We also had two successful designer collaborations in 2010, with Sonia Rykiel and Lanvin.

We were very pleased with last year's designer collaborations but the real highlights were created by H&M's own designers. Our skilled teams delivered several well-received collections, such as the Garden Collection made entirely from environmentally adapted material.

Today's fashion customers take a keen interest in how the clothes they buy have been made. In addition to our broad and fashionable range, sustainability – taking responsibility for people and the environment – is an increasingly important part of H&M's offering.

The Garden Collection was a great success last spring and this year we followed up with the Conscious Collection, which was very well received when it was launched around mid-April. The Conscious Collection offers various shades of white, one of this spring's big fashion trends. It includes garments for the whole family made from environmentally adapted materials such as organic cotton, recycled polyester and Tencel.

### **Our responsibility**

At the same time as the Conscious Collection was launched, we published H&M's sustainability report for 2010. Available at [www.hm.com](http://www.hm.com), the report gives a detailed review of the most important aspects of our extensive sustainability work last year.

We want our customers to always feel that we are doing our very best to ensure that the fashion we offer is manufactured, transported and sold in a sustainable manner, and that it fulfils our strict standards of quality, functionality and safety. Adding more sustainability is one important way for us to improve our customer offering further at the same time as we continue to offer attractive prices.

As a global retailer we buy and sell goods in many markets. Foreign trade plays a major role in the development of countries as it is a source of economic growth. It helps lift people and nations out of poverty. H&M indirectly creates jobs for hundreds of thousands of people in our manufacturing countries, mainly in Asia. We do not own any factories but the sustainability work we carry out in cooperation with our suppliers is extensive. Through our active presence we are contributing to positive development in these countries.

As a global fashion company we strive for diversity and equality. Last year, 79 percent of our employees were women and women held 71 percent of all positions of responsibility within the Group, such as store managers and country managers.

### **H&M Incentive Program**

H&M today has more than 87,000 employees. Our employees are the key to H&M's success and in order to show our appreciation, H&M has started an incentive programme for all employees, the H&M Incentive Program.

The programme was initiated with a gift from the Stefan Persson family to the foundation, Stiftelsen H&M Incentive Program, of approximately 4 million H&M shares at a value of approximately SEK 1 billion, based on the share price on 6 September 2010. The purpose is to encourage and acknowledge long-term commitment and to further strengthen H&M as an attractive global employer.

H&M also intends, under normal circumstances, to make annual contributions to the foundation, with an amount equivalent to 10 percent of the increase in dividend in relation to the previous year's dividend.

The return on the foundation's funds is to be evenly distributed to employees over time, regardless of their position or salary level. This means that employees will be able to benefit from H&M's expected growth in value in the same manner as a shareholder.

## **H&M in 2011**

H&M is continuing to expand and we see great potential for further growth for all of our formats in the future as well.

Our growth target remains intact: to increase the number of stores by 10 to 15 percent per year with continued high profitability and to increase sales in comparable units. In 2011 we plan to open approximately 250 stores net, including H&M and our other brands. We are expanding in all of our markets this year and expect China, the UK and the US to be the largest expansion markets.

H&M will enter five new markets this year: Romania, Croatia and Singapore as well as Morocco and Jordan via franchise.

We opened our first stores in Romania and Croatia in March and April, and H&M is now available to customers in 40 countries. The openings attracted thousands of customers and their response was fantastic, exceeding our high expectations. In August, H&M will open in Singapore, at the best location on Orchard Road. It will be our first store in South East Asia, an exciting region where we see great potential for future growth.

We also believe strongly in our other brands, COS, H&M Home, Cheap Monday, Monki and Weekday.

We are very much looking forward to the opening of COS' first store in Sweden. COS combines the prêt-à-porter fashion designs with a focus on quality at attractive prices. With the opening on Biblioteksgatan in Stockholm on 20 May, COS will have around 40 stores in nine countries.

Expansion continues for Cheap Monday with wholesale as well as retail. Cheap Monday currently has one store in Copenhagen which is much appreciated by customers, and the brand will open more stores.

Monki and Weekday have grown rapidly in a short time and will expand at a slower rate this year as we want to focus on existing operations. We have great faith in both of these brands.

## **H&M online**

H&M is growing, not only with stores, but also in online sales. We have rebuilt our web store in order to offer an even better customer experience with even easier shopping and plenty of inspiration. The new H&M Shop Online is being rolled out gradually this year in all countries where we offer online and catalogue sales. Around the end of 2011, we will open H&M Shop Online in the US, the world's largest retail market which will become our ninth online market.

We see that our fashion is attracting more and more people around the world. We are constantly finding new and exciting ways to communicate and interact with our customers. Through social media we reach H&M customers wherever they are. There is, for example, great interest in H&M's apps for iPhone, iPad and Android, where users can get inspiration, see videos and receive news about our latest offers. Every week on YouTube we show new fashion videos and fashion reports. Up to now our videos have around 6.5 million viewing. We have nearly 7 million fans on Facebook who are very active too. The number of contributions, comments and "likes" ranges from 35,000 to 40,000 per week.

## **Looking ahead**

Looking ahead, we are closely monitoring conditions in both our sourcing markets and our sales markets. Many economies are still facing great challenges that are having negative effects on consumer spending. As I mentioned before, several competitors are keeping volumes up through frequent price and discount activity. There is also high input cost inflation. In other words, market conditions clearly present a challenge.

But at the same time we are very optimistic about our future. We are a company that acts with a view to the long term. We have a successful business concept and a strong position in all of our markets.

H&M is one of the world's strongest brands today. This is according to external rankings, and we are seeing the same results in the customer surveys we conduct in each of our markets. Our research shows that customer perception about H&M has strengthened in all markets.

In 2010, we chose to increase our investment in our customer offering as well as in marketing, online, logistics and IT. We did this in order to build an even stronger H&M and for continued profitable growth for many years to come.

Thank you for listening and now, I would like to hand over to the Chairman of the Board.